

FAIRFAX COUNTY, VIRGINIA

MEMORANDUM

TO: Board of Supervisors

DATE: April 15, 2004

FROM: Anthony H. Griffin
County Executive

AHG

SUBJECT: FY 2004 and FY 2005 Revenue

At the request of Supervisor Bulova, the Department of Management and Budget has reviewed FY 2004 and FY 2005 General Fund revenue estimates to determine if additional resources would be available for FY 2005 based on current economic activity. Projecting revenues during what can be characterized as a "bumpy" economic expansion has been challenging. Many revenue categories have experienced uneven growth throughout the fiscal year with no sustained upward trend. The potential for additional revenue from categories that are sensitive to economic conditions was noted during the *FY 2004 Third Quarter Review*. Based on analysis of collections-to-date, staff anticipates that additional revenue of \$12.9 million will be available beyond the revenue currently identified in the *FY 2004 Third Quarter Review* and the FY 2005 Add-On package. The additional revenue is due to the following categories:

- Current Real Estate Taxes, \$4.7 million – This increase is due to an expected increase in the collection rate. The FY 2004 and FY 2005 Budget estimates included a projected collection rate of 99.50 percent. Due to the expanding economy, an improving business sector and strong mortgage refinancing, the collection rate is anticipated to increase to 99.65 percent in both FY 2004 and FY 2005 resulting in additional revenue of \$2.2 million and \$2.5 million, respectively.
- Sales Tax Receipts, \$4.1 million – This increase is the result of stronger than anticipated current year growth in collections and the assumption that the economy will continue to improve in FY 2005. Sales Tax receipts are very sensitive to changes in the economy. In FY 2002, Sales Tax receipts fell 5.9 percent and increased a slight 1.0 percent in FY 2003. Sales Tax receipts in FY 2004 have experienced significant monthly variation. During the fall revenue review, modest growth of 3.0 percent was projected as receipts had just turned positive for four consecutive months, the first time since late 2000. Sales Tax receipts in December and January increased a robust 24 percent but then fell 1.1 percent in February. The estimate for Sales Tax receipts was increased \$3.1 million during the *FY 2004 Third Quarter Review*, reflecting anticipated growth of 5.5 percent over FY 2003. Since Third Quarter, Sales Tax receipts have risen 9.2 percent. Based on anticipated annual growth of 6.5 percent in each fiscal year, additional Sales Tax revenue of \$1.3 million and \$2.8 million is anticipated in FY 2004 and FY 2005, respectively.

- Delinquent Tax Revenue, \$4.1 million – In February and March 2004, \$5.2 million was collected from delinquent Real Estate, Personal Property, and BPOL Taxes. As a result, delinquent tax collections are \$4.1 million more than anticipated during the *FY 2004 Third Quarter Review*. Delinquent collections have been affected by the improving economy and mortgage refinancing. This increase would not be anticipated to recur in FY 2005.

Historically, the County's revenue forecasts have been very accurate with an average difference between actual revenue and the Revised Budget of about 1.0 percent well within forecasting standards. With a FY 2005 General Fund revenue base of \$2.76 billion; however, a 1.0 percent difference represents \$27.6 million. A recent article from Moody's Investors Service indicated that accurate and conservative revenue forecasting are critical factors reviewed by rating agencies. According to Moody's: "Overall, our reason for focusing on this analytical area is that rosy revenue budgeting can lead to shortfalls within a fiscal year. These shortfalls must then be filled, either by last-minute revenue enhancements, expenditure cuts, one-shots or draws into reserves. All of these measures undermine future financial flexibility, which can create fiscal problems in subsequent years and pose a significant challenge to credit strength."

I believe staff has accurately tightened our revenue forecast for FY 2004 and FY 2005 based on the current economic situation. Please feel free to contact me if you have any questions.

cc: Edward L. Long, Jr.
Chief Financial Officer

Verdia L. Haywood
Deputy County Executive

Robert A. Stalzer
Deputy County Executive

David J. Molchany
Chief Information Officer

Susan W. Datta, Director
Department of Management and Budget

Merni Fitzgerald, Director
Office of Public Affairs

David Bobzien, County Attorney
Office of the County Attorney